

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 1540 - HB 2007**

March 14, 2011

**SUMMARY OF BILL:** Authorizes any captive insurance company to apply to the Commissioner of the Department of Commerce and Insurance (TDCI) for an insurance license. Creates specifications regarding the risks a captive may insure. Requires the captive, prior to becoming licensed, to file specified documents, information, and disclosures with TDCI. Creates criteria under which such information is discoverable by a party in a civil action. Requires specified minimum capital and surplus for licensure as a captive insurance company. Classifies the types of corporations captives may form, and in what manner they must form those corporations. Requires TDCI to audit each captive insurance company at least once every three years. Defines authorized investments for captives. Authorizes such companies to provide reinsurance on risks ceded by another insurer. Defines “branch captive,” “protected cell” and “sponsored captive insurance company” for purposes of the Amended and Restated Tennessee Captive Insurance Company Act (Act). Requires applicant-sponsored captives to file specified supplemental license application materials with TDCI. Authorizes formation of protected cells. Creates requirements for sponsors of captives. Authorizes the combining of assets of two or more protected cells for investment purposes. Codifies the means by which a branch captive may be formed and the security required to become licensed. Requires branch captives to file annual reports with TDCI. Defines “special purpose financial captive (SPFC)” for the purposes of the Act. Creates fees and procedures for SPFC licensure. Creates organizational requirements for a SPFC. Requires a SPFC to maintain minimum capitalization of \$250,000. Defines the risks a SPFC may insure. Authorizes and establishes the criteria by which a SPFC may create and use protected cells. Defines the manner for creating, naming, and managing the assets of a SPFC protected cell. Authorizes a SPFC to issue securities and to enter into asset management agreements and contracts. Creates requirements and guidelines for SPFC asset management and trust agreements. Requires a SPFC to maintain records and make them available to TDCI.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue –**

**\$105,000/FY11-12/Captive Insurance Regulatory and Supervision Fund**

**\$50,000/FY11-12/General Fund**

**Exceeds \$120,000/FY12-13 and Subsequent Years/**

**Captive Insurance Regulatory and Supervision Fund**

**Exceeds \$190,000/FY12-13 and Subsequent Years/General Fund**

**Increase State Expenditures – \$102,500/FY11-12/General Fund**

**\$91,600/FY12-13 and Subsequent Years/General Fund**

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Assumptions:

- According to TDCI, this bill is similar to existing South Carolina law. As such, the information provided by TDCI is based upon the impact realized by South Carolina.
- The Department anticipates premium tax revenue of \$30,000 per captive each year, and that five companies will be granted captive status each year. The increase in premium tax revenue will be \$150,000 (\$30,000 premium tax x 5 companies) in FY11-12. The recurring increase in premium tax revenue will exceed \$300,000 (\$30,000 premium tax x 10 companies) in FY12-13 and subsequent years.
- Each year, the first \$100,000 of premium tax revenue collected, plus 10 percent of any premium tax revenue collected in excess of \$100,000 will be allocated to the Captive Insurance Regulatory and Supervision Fund (CIRSF); the remainder will be allocated to the General Fund. As a result, the increase in premium tax revenue allocated to the CIRSF will be \$105,000 [\$100,000 + (\$50,000 x 10%)] in FY11-12. The increase in premium tax revenue allocated to the General Fund will be \$45,000 (\$150,000 - \$105,000) in FY11-12.
- The increase in premium tax revenue allocated to the CIRSF will be \$120,000 [\$100,000 + (\$200,000 x 10%)] in FY12-13 and subsequent years. The increase in premium tax revenue allocated to the General Fund will be \$180,000 (\$300,000 - \$120,000).
- The Department will charge each captive an annual license fee of \$1,000. The increase in state licensure fee revenue will be \$5,000 (\$1,000 license fee x 5 companies) in FY11-12, and the recurring increase in state licensure fee revenue will exceed \$10,000 (\$1,000 license fee x 10 companies) in FY12-13 and subsequent years.
- All licensure fee revenue is allocated to the General Fund.
- The total increase in state revenue allocated to the General Fund will be \$50,000 (\$45,000 + \$5,000) in FY11-12; the total increase in state revenue allocated to the General Fund will exceed \$190,000 (\$180,000 + \$10,000) in FY12-13 and subsequent years.
- The Department will hire an Administrative Services Assistant 4 in order to implement the requirements of the bill. The recurring increase in state expenditures is \$91,600 (\$42,300 salary + \$14,700 benefits + \$600 supplies + \$1,000 phone + \$18,000 travel + \$15,000 administrative services). The one-time increase in state expenditures will be \$10,900 (desktop and laptop computers, desktop and portable printers, remote connection costs, and office furniture).

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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